

Optimism Turns to Caution

Tariff concerns outweigh other pro-business agenda items, as investor, business, and consumer sentiment sours.

In Summary

The year began with optimism as investors focused on the new administration's pro-growth agenda, overlooking fiscal policy risks like tariffs and austerity measures.

Trade-related policies have since dampened sentiment, though potential tax cuts could offset some economic drag, while consumer confidence has declined due to inflation and job market concerns.

Despite mega-cap stock losses, defensive sectors and international equities have shown resilience, benefiting from weaker dollar dynamics and attractive valuations. OAM Research continues to recommend portfolio diversification with exposure to high quality fixed income as well as diversifying strategies that have a low correlation to traditional asset classes.

Asset Class Change:

Event Driven/Uncorrelated moved from positive to slightly positive.

 Slightly Positive   Positive

For more information see page 5.

The year began with pervasive optimism following the outcome of the U.S. elections. Institutional and retail investors were positioned with record-high equity allocations, and business owners expressed great confidence in their growth outlooks. Investors focused on the new administration's potentially pro-growth agenda and overlooked several risks that OAM Research felt had been mispriced, specifically risks tied to fiscal policy and their impacts on the economy.

The administration has focused on trade, immigration, deregulation and fiscal austerity thus far. Tariff policies initially discounted as campaign rhetoric now appear to be in effect or on the negotiating table, forcing investors to rethink their outlooks on growth and inflation.

Misplaced Confidence in Policy Clarity

A fluid fiscal policy situation has negatively impacted sentiment. Restructured trade and spending have nuanced implications that can create winners and losers as opposed to ushering in a tide that lifts all boats.

Businesses

Large and small businesses alike expected the new administration to provide an attractive backdrop for growth, investment, and corporate transactions. However, President Trump's hardline approach to trade has clouded the outlook for many industries. The aggressive but evolving trade policy has led to declines in CEO optimism, reduced capex spending, and tempered earnings guidance for the year-ahead. The longer policy uncertainty persists, the greater the overhang and the higher the risk of slowed business activity, likely intensified by a cautious consumer.

CEO Confidence Drops To Lowest Level Since November 2011

CEO Confidence in the Economy 1 Year From Now (Oct 2002 - Mar 2025)



Source: Bloomberg, Chief Executive Magazine. As of 3/31/25.

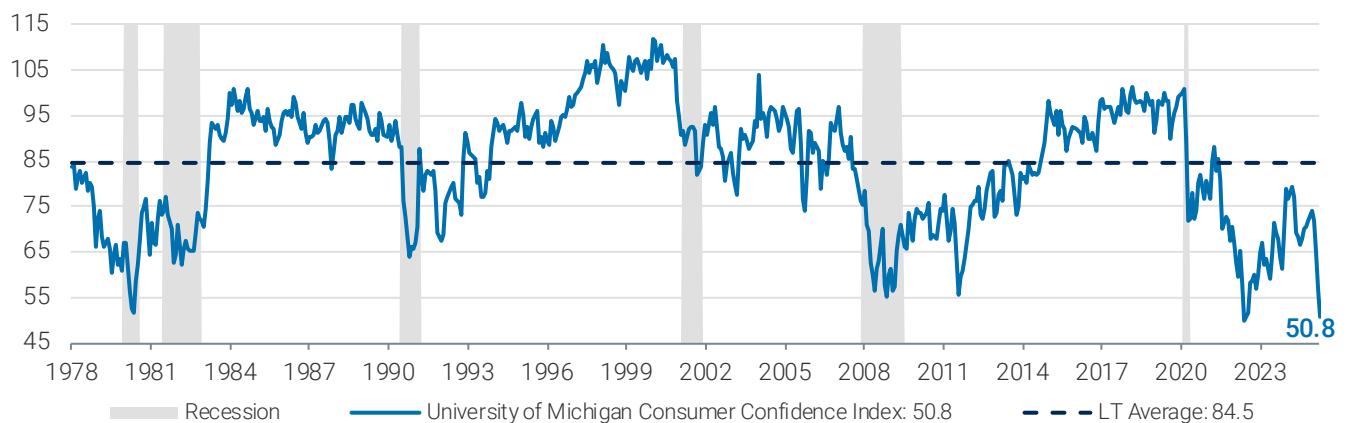
It is important to note that U.S. businesses entered 2025 on strong footing. Fourth quarter earnings growth was robust, and even with reduced guidance the Street is, for now, forecasting above-average earnings growth for the S&P 500 in 2025. Notably, smaller companies were expected to grow profits considerably following a two-year earnings recession. Corporate balance sheets remain under-leveraged relative to history, and a modest economic slowdown may entice the Fed into further easing, helping the more cyclical and debt-laden industries as well. The decline in sentiment appears to be mostly trade-related, so negotiated deals could unlock more investment. The administration is also floating potential tax cuts for both businesses and consumers that, if realized, may provide a boost to earnings as well.

Consumers

Similarly, consumer sentiment surveys show a steep drop in confidence following the post-election optimism. Inflation remains at the heart of the consumer's concerns given the impact of tariffs on the prices of goods. Simultaneously, the efforts of DOGE (Department of Government Efficiency) to reduce government spending has increased consumer hesitancy as many evaluate their employment prospects. Even outside of government, announced job cuts have jumped and continuing unemployment claims are trending higher. The labor market has remained resilient, evidenced by the stronger than expected March jobs report, but expected weakening could catalyze a slowdown in spending.

US Consumer Sentiment Plummets to Second-Lowest Level on Record

University of Michigan Consumer Sentiment Index (Jan 1978 - Apr 2025)



Source: Bloomberg, University of Michigan. As of 4/11/2025.

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Immigration policy further blurs the picture. A reduced labor force and, thus, smaller consumer base is likely to reduce domestic spending. Early reports from consumer-sensitive businesses like airlines and retailers, as well as retail sales growth data from the U.S. Census Bureau, suggest a slowdown in spending.

It should be noted that negative sentiment does not always lead to a slowdown in spending. Sentiment surveys were similarly weak in 2022 as inflation spiked and the Fed raised interest rates aggressively, yet consumers continued to spend and the US avoided a recession. While delinquencies have started to trend higher and the savings rate has come down, consumer balance sheets, particularly among wealthier consumers, remain very healthy. It is too early to accurately define this slowdown as a downward trend. Historically, as long as the U.S. consumer is employed, they have demonstrated a willingness to spend.

Investors

A reversal of market momentum disproportionately impacted crowded trades (Magnificent Seven) to start 2025. The AAI bull/bear sentiment index sank to levels in line with past recessions, as pessimism swiftly supplanted extreme optimism. A satisfactory tariff resolution could catalyze another reversal, but the longer trade negotiations drag out, the more likely slowing economic activity weighs on elevated equity valuations.

Despite the pessimism, investors have been fairly resilient and significant outflows have not materialized. Although other asset classes like international equities and fixed income have started to get more attention and while U.S. equity allocations are off their highs, exposure to the U.S. still remains higher than average. Mega-cap losses weighed on index returns, but investors have taken solace in the fact that other areas of the market were more resilient, with some more defensive sectors like Consumer Staples and Healthcare protecting very well amidst the drawdown.

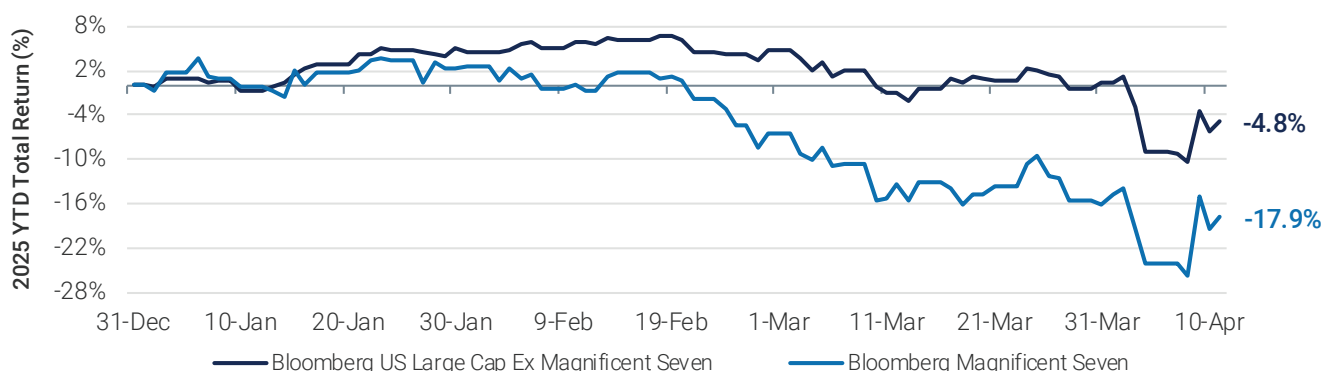
A Proof Point for Diversification

The start of 2025 provided a refresher on the benefits of diversification and the importance of portfolio rebalancing. The past two years of strong U.S. large cap equity outperformance left many investors over-allocated to the asset class. As portfolio weights drift further away from strategic targets, investors need to thoroughly assess the impact on overall portfolio risk and suitability. While active rebalancing into other asset classes would have been detrimental to relative performance in 2023 and 2024, this prudent risk management technique would have helped to mitigate portfolio drawdown to start 2025.

OAM Research entered this year wary of the extreme valuations in certain segments of the U.S. equity market and continue to see challenges to greater multiple expansion. Company fundamentals remain strong for now and the economy has thus far been resilient, but when equities trade at very extended valuations any slight bump in the road could catalyze a significant repricing. With policy uncertainty elevated and investor sentiment wavering, it was the highest-priced stocks that sold off the most. The Magnificent Seven stocks fell into bear market territory in the first quarter, dragging the S&P 500 down into correction territory. While recent trade revelations have catalyzed large market swings to start Q2, value stocks, which were more reasonably priced at the start of the year, have been much more resilient.

Magnificent Seven Stocks Underperformed by a Wide Margin

YTD Performance Through 4/14/25



Source: Bloomberg. As of 4/14/2025.

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What has surprised many is the outperformance of non-U.S. stocks to start 2025. Despite the trade war overhang, international equities have outperformed thanks to a weaker dollar, fiscal and monetary support, and much more attractive valuations. While the macro outlook for the U.S. has gotten cloudier, data overseas has generally been improving. Even with the significant outperformance to start the year, the valuation dispersion still leans heavily in favor of non-U.S. stocks. While a more pronounced slowdown in global growth would likely have adverse effects on all risk assets, regardless of the starting point, the valuation discount implied in non-U.S. stocks may provide a margin of safety.

High quality fixed income served as a ballast to portfolios, until more recently as yields rose. We believe treasuries and investment grade credit may continue to provide attractive current yields and has the potential to outperform in the event of a global slowdown. Conversely, high yield credit has lagged as credit spreads widened from the extremely tight levels to start the year. If a slowdown in growth remains the primary factor driving markets, we could expect these trends to continue.

Given the aggressive trade policy and the significant implications it may have on the global economic backdrop, OAM Research continues to emphasize diversification within portfolios, a higher quality bias within both equity and fixed income allocations, and adequate exposure to diversifying strategies with low correlations to traditional asset classes.

Asset Class Detail

This chart outlines OAM Research's macroeconomic and asset class views.

Asset class views reflect a 6-12 month outlook by OAM Research based on macroeconomic trends, valuations, and technical indications.

● Negative
 ● Slightly Negative
 ● Neutral
 ● Slightly Positive
 ● Positive

Global Equity

U.S. Large Cap



Large cap fundamentals remain healthy and earnings growth has been strong, but fiscal policy has the potential to weigh on growth prospects. Equity valuations have declined this year but remain elevated compared to history and other asset classes, particularly on the growth side. In our view, higher-quality companies with pricing power should be more resilient, and investors may benefit from allocating to strategies focused on quality and downside protection.

U.S. Small-Mid Cap



In our view, small and mid-cap valuations appear more attractive after a significant sell off, especially compared to large caps. Smaller companies may face continued pressure if growth concerns persist, but small cap earnings were expected to rebound significantly in 2025 and the asset class may benefit most from easing trade concerns.

International Developed



Outperformance to start the year has been driven by a mix of positive economic surprises, fiscal and monetary tailwinds, U.S. dollar weakness, and mean reversion. We believe relative valuations remain attractive and fiscal spending in Europe could provide meaningful stimulus, but expectations are tempered by higher tariffs and their impact on global growth.

Emerging Markets



Valuations remain reasonable and look attractive relative to developed equities. Global EM growth is expected to remain strong, but heightened trade concerns and significant currency fluctuations can have meaningful implications for many emerging countries. Active managers may take advantage of bifurcated performance by allocating to countries with more promising growth prospects.

Global Equity - Alternatives

Long/Short Equity is considered part of the strategic asset allocation for equities based on each fund's underlying investments.

Long/Short Equity



Long/short strategies could see more volatility with the current administration and may be able to use this dispersion to add long and short alpha. Hedging and exposure management efforts appear to be more important. The multi-manager platforms may impact broader market movements given the leverage utilized at the fund level. Sector positioning remains focused on AI and technology. Finally, we believe non-U.S. investments may increase within portfolios given attractive fundamentals.

Global Fixed Income

U.S. Core Fixed Income



We believe that yields compressed from highs at the start of the year, and the asset class should continue to provide portfolio protection if growth concerns persist. Investment-grade credit spreads appears to be tight even after some modest widening in Q1, but corporate balance sheets remain healthy. Yields on high-quality securitized products remain compelling.

High Yield Credit



Spreads have widened meaningfully recently, sparked by rising recession concerns. Defaults have stayed muted and leverage is not excessive. Absolute yields today remain attractive, but the asset class may be subject to a material drawdown if growth stalls or an unforeseen credit event arises.

International Fixed Income



International bonds continue to provide above-average yield and have benefited from recent dollar weakness, though the pace of interest rate cuts may be tempered by fiscal spending in certain regions. Emerging market debt appears to look more attractive within the non-U.S. market, both from a yield perspective and as a portfolio diversifier, though the asset class may suffer if global growth slows meaningfully.

Diversifying Strategies

Real Assets



Inflation concerns persist given rising trade tension, highlighting the important role of real assets in portfolios. Midstream energy infrastructure continues to perform given strong fundamentals and elevated yields. Utilities and Infrastructure may continue to benefit from thematic tailwinds as well as their defensive characteristics. REITs could benefit from stable or falling interest rates as long as growth doesn't decelerate meaningfully.

Event Driven/Uncorrelated



Event-driven strategies are seeing lower levels of deal flows thus far in 2025 and fundamental research could be key to generating alpha. Private sponsors may begin to buy more publicly traded companies if markets decline or particular sectors are hit harder. Credit investments continue to offer attractive return opportunities across corporate, investment grade and high yield.

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Adopting a fee-based account program may not be suitable for all investors; anticipated annual commission costs should be compared to anticipated annual fees.

S&P Equal Weighted is the equal-weight version of the S&P 500. The index is comprised of the same stocks of the S&P 500, but each company is allocated a fixed percentage (.2%) of the total index.

MSCI AC World ex-USA Index captures large- and mid- cap representation across 22 of 23 developed-market countries (excluding the U.S.) and 24 emerging-market countries.

MSCI EAFE is an index in U.S. dollars based on the share price of companies listed on stock exchanges in 21 developed countries outside of North America. This Index is created by aggregating the 21 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 index. Frank Russell Co. ranks the U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period. The Russell 2000 Index represents a very small percentage of the total market capitalization of the Russell 3000 Index. It is considered to be generally representative of U.S. Equity Small and Mid Cap performance.

Russell 1000 Value Index measures the performance of the Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

MSCI Emerging Markets Index is a market capitalization weighted Index in U.S. dollars representing 26 emerging markets in the world. The Index is created by aggregating the 26 different country Indices, all of which are created separately. It is considered to be generally representative of overseas stock markets.

Russell 1000 Growth Index measures the performance of the Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

S&P 500 Sector/Information Technology TR Index consists of stocks chosen for their representation in the Info Tech industry. Companies considered are involved in technology software and technology hardware and equipment. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value.

LTM PE Ratio is the last 12-month price-to-earnings ratio. Indices are unmanaged, do not reflect the costs associated with buying and selling securities and are not available for direct investment.

Risk Factors

The success of an investment program may be affected by general economic and market conditions, such as interest rates, the availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses. Investing in securities is speculative and entails risk. There can be no assurance that the investment objectives will be achieved or that an investment strategy will be successful.

Special Risks of Foreign Securities

Investments in foreign securities are affected by risk factors generally not thought to be present in the United States. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations.

Special Risks of Small- and Mid-Capitalization Companies

Investments in companies with smaller market capitalization are generally riskier than investments in larger, well established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial and managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger, more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small- and mid-capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the investment manager may be required to sell these securities over a

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longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small- and mid- capitalization companies may be more volatile than those of larger companies.

Special Risks of Fixed Income Securities

For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time. Liquidity risk is the risk that you might not be able to buy or sell investments quickly for a price that is close to the true underlying value of the asset. When a bond is said to be liquid, there's generally an active market of investors buying and selling that type of bond. Fixed income securities markets are subject to many factors, including economic conditions, government regulations, market sentiment, and local and international political events. Further, the market value of fixed-income securities will fluctuate depending on changes in interest rates, currency values and the creditworthiness of the issuer.

High Yield Fixed Income Risk

High yield fixed income securities are considered to be speculative and involve a substantial risk of default. Adverse changes in economic conditions or developments regarding the issuer are more likely to cause price volatility for issuers of high yield debt than would be the case for issuers of higher-grade debt securities. In addition, the market for high yield debt may be less attractive than that of higher-grade debt securities.

Special Risks of Event-Driven Strategies

Investing in event or disruption driven strategies carries the risk of the unforeseen nature of events, such as corporate transactions falling through or changes in the economic or political environment. A reduction in money market liquidity or pricing inefficiency, as well as other market factors, can potentially reduce the scope for these investment strategies. Such funds may be adversely affected by unforeseen events, including forced redemptions of securities or acquisition proposals, break-up of planned mergers, unexpected changes in relative value, short squeezes, inability to short stock or changes in tax treatment.

Special Risks of Long/Short Equity

Long/short equity strategies utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. While strategies, techniques and instruments that employ leverage increase the opportunity to achieve higher returns on the amounts invested, they also increase the risk of loss. Hedging and selling securities short entails losing an amount greater than proceeds received or possible default by the other party to the transaction.

Special Risks of Uncorrelated Strategies

Strategies such as multi-strategy, macro and CTA utilize leverage, and may do so through direct borrowing, short selling, options and other instruments (including, without limitation, derivatives) and arrangements with embedded leverage. Hedge funds, commodity pools and other alternative investments involve a high degree of risk and can be illiquid due to restrictions on transfer and lack of a secondary trading market. In addition, they may be subject to commodity risk, derivatives risk, foreign investment risk, foreign currency risk, and credit risk. Many hedge funds employ a single investment strategy. Thus, a hedge fund or even multi-strategy hedge funds may be subject to strategy risk, associated with the failure or deterioration of an entire sub-strategy. Strategy specific losses can result from excessive concentration by multiple hedge fund managers in the same investment or broad events that adversely affect particular strategies.

Special Risks of Alternative Investments

Alternative investments are not appropriate for all investors and only may be offered to certain qualified investors. Investors must be able to bear the economic risk of such an investment for an indefinite period and can afford to suffer the complete loss of investment. An Investor's ability to redeem from such investments is limited to specific time periods (e.g. monthly, quarterly, semi-annually, annually) with certain notice requirements. Investing in securities is speculative and involves substantial risk. There can be no assurance that any investment strategy will be successful. This information is provided for informational purposes only and should not be construed as an endorsement of or a solicitation to invest in any specific program. There is a substantial risk of loss when investing in alternative investments and, for each specific fund, the risk of underperforming the general markets or other funds.

Special Risks of Real Assets

Master limited partnerships are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPs are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPs include concentration risk, illiquidity, and exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPs are not suitable for all investors. Common risks associated with an investment in a REIT include, but are not limited to, real estate portfolio risk (including development, environmental, competition, occupancy and maintenance risk), general economic risk, market and liquidity risk, interest rate risk, sector diversification and geographic concentration risk, leverage risk, distribution risk, capital markets risk, growth risk, counterparty risk, conflicts of interest risk, key personnel risk, and structural and regulatory risk.

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